APRIL 1 1985

FE 8900-1

$3.00

FORTUNE

THE BATTERED HOUSE OF HUNT

THE DOLLAR'S DANCE— HOW THE ECONOMY WILL RESPOND

WHY CHIEF EXECUTIVES' PAY KEEPS RISING

MONEY LAUNDERING— MORE SHOCKS AHEAD

Herbert and Bunker Hunt

APRIL 1, 1985 VOL. 111, NO. 7

FORTUNE

The Hunt brothers are surrounded by silver in Roberto Brosan's cover photo. Herbert's portrait is by Bob Gomel, and Stephen Northup photographed Nelson. For a look at the Hunts' shaken empire, see page 26.

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MONEY LAUNDERING—

Hunting for dirty money *in Massachusetts are (from left) U.S. Attorney William F. Weld, 39; Jeremiah T. O'Sullivan, 41, chief attorney for a federal strike*

MORE SHOCKS AHEAD

Banks are just the beginning. Federal strike forces are also looking into brokerage houses, which make dandy laundries, and casinos, which are better still.

■ *by Anne B. Fisher*

force; and special prosecutor Patrick M. Walsh, 38.

EVEN BOSTON'S CAB DRIVERS, normally a shockproof bunch, are scandalized: they can tell you every detail of the troubles at the Bank of Boston, one of Beantown's oldest—and, until lately, most venerable—fortresses of commercial and retail banking. It isn't only that the bank neglected to report to the Internal Revenue Service cash transactions of $1.2 billion with Swiss customers and paid a $500,000 fine. The real stunner was a string of dealings with the Angiulo family, reputedly the premier mobsters of Massachusetts.

The bank conferred privileged status on two businesses owned by the Angiulos, placing them on a special list of customers whose large cash transactions aren't reported to the government. The Angiulo brothers, now awaiting trial for murder, gambling, racketeering, and assorted other thuggish deeds, regularly used to drop in at a Bank of Boston branch toting paper bags stuffed with cash. Since these shady activities were revealed by federal investigators a few weeks ago, the bank has changed its explanation several times and contradicted itself at least twice. Chairman William L. Brown's public comments are reminiscent of Richard Nixon's immortal "I am not a crook." Indeed, Brown is now about as popular in Boston as the former President was on college campuses a dozen years ago.

Startling as the bank's debacle has been, it's only the beginning. More scandals almost certainly lie ahead. Federal investigators, banded into interagency teams called strike forces, are taking a razor-close look at the books of 41 banks across the U.S. and plan to scrutinize the records at 250 more. Meanwhile, the Bank of Boston's fall from grace has sent its local competitors combing back through old records checking for unreported cash, rather than waiting for the feds to find it. In March the Shawmut Bank of Boston discovered that over the past five years it has failed to report $157 million in foreign currency transactions. In addition, the bank told U.S. Treasury officials and bank regulators, it erroneously put 27 business customers in a category where currency dealings needn't be reported.

Federal probers are trying to track down some of the estimated $100 billion they believe is laundered through financial institutions every year. Nor are the investigators looking only at banks. Brokerage houses in Boston and New York are under the magnifying glass too. And Congress has just passed a law that will make gambling casinos, long suspected of being used by launderers, subject to the same reporting requirements as banks and brokerage houses.

Laundering is the art of moving "suitcase money" from illegal businesses into legitimate financial channels to conceal its unsavory origins. Once underworld characters receive clean money in exchange—most often bank cashier's checks—they can invest in other businesses or splurge on yachts and fur coats. A big chunk of the elusive $100 billion seems to come from illegal gambling, prostitution, and other such enterprises. More than a third, though, probably arises from the drug trade. Cocaine, in particular, is a hot commodity.

If law enforcement efforts could keep drug traffickers from washing their money, the President's Commission on Organized Crime reasons, drug dealers might be obliged to find some other line of work. The current government crackdown, based on that sunny logic, has become a political cause célèbre in Washington. Alarmed by the rising flow of drugs into the U.S., mostly from Latin America, Congress late last year passed an amendment requiring President Reagan to cut foreign aid to countries that don't beef up programs to stop it. The President's Commission on Organized Crime is also calling on the U.S. private sector to turn away the mob's money. It's pointless, after all, for the Administration to insist that the government of Colombia help out if U.S. banks won't.

One incongruity here, as the commission acknowledges, is that money laundering as such is not a crime. No law, federal or state, imposes a penalty on a person who just happens to have a million dollars or so in a card-

PHOTOGRAPHS BY GORDON/TRAUB—WAYFARER

board box and wants to buy a cashier's check. If law enforcers later find the money to be the proceeds of a brisk business in cocaine, they may have evidence for a drug case. But the money laundering, however often it may have been carried out, isn't an issue. The commission wants a new law that would make laundering a crime, and will probably get its wish.

For now, all that federal authorities can do is enforce the Bank Secrecy Act, which the Bank of Boston violated. Passed in 1970, it requires banks and other financial institutions—including savings and loans, brokerage houses, and currency exchange businesses—to file a report with the IRS describing every cash transaction of more than $10,000.

The criminal penalties for willful and repeated failure to report are severe. Both the bank and an officer can be fined $500,000 for a series of violations, and officers can go to prison for up to five years—which a bill in the House would double to ten years. Unreported international currency transactions can result in similar penalties, plus a civil penalty equal to the amount of currency involved. The Bank of Boston's $500,000 fine was for Swiss transactions unrelated to the Angiulos. Possible grand jury indictments of the bank's officials are yet to come.

The law allows banks to forgo the reports for some customers that routinely deal in lots of cash, though real estate companies and investment firms such as those the Angiulos run in Boston are almost never among them. Grocery stores and parking lots are exempt from the reporting requirements. So are casinos and race tracks, despite their longstanding low-life image.

A bank might have any number of reasons for not wanting to file a currency transaction report. The IRS's Form 4789—which is supposed to be filled out by the teller or, more usually, the branch officer who okays the transaction—is a one-page questionnaire that raises ticklish points. What is the customer's taxpayer identification number? (Gulp.) What is his occupation? "Do not use nondescriptive terms," the instructions badger, "such as 'self-employed' or 'businessman.'" But neither "drug dealer" nor, say, "hit man" is likely to go over big.

This Laundry Isn't Shrinking

In a decade in which $100-a-gram cocaine became the drug of choice for the upwardly mobile, authorities on money laundering estimate that the amount of money U.S. drug purveyors wash has grown tenfold.

To keep a valued customer, many a hapless bank manager has agreed to skip the reporting, often in return for a fistful of the greenbacks in the bag. The Garfield Bank in Los Angeles and the Pan American International Bank in Las Vegas were among those that were using this ploy until a couple of years ago. Garfield may wind up paying $2.3 million in fines, penalties, back taxes, and interest. Pan American's fines were smaller, but its former vice chairman has been sentenced to prison and, though out on bail, could wind up playing Ping-Pong behind the big wall.

THE MOST WIDESPREAD cause of failing to file, however, appears to be simple incompetence, or "systems failure"; for a time that was the Bank of Boston's explanation. Bankers do have an awful lot of regulations to worry about, and alas, once in a while a rule just escapes bankers' notice. "When they are educated, they comply beyond the letter of the law, and most big banks do comply," says Gerard J. Kenna, a former FBI agent, now a consultant to the American Bankers Association. "But I can tell you that I know some extremely dedicated bankers who don't understand some of the simple, basic provisions of the Bank Secrecy Act." Judge Irving R. Kaufman, chairman of the President's Commission on Organized Crime, says he has talked to plenty of bank officers who are "unaware of their obligation under the law to report cash transactions. Or they just don't know what's going on in their own organization."

Another set of laws, bankers sometimes argue, can discourage them from reporting launderers. Even when bank employees know what's going on, they must worry about federal and state privacy laws. In 1978 Congress passed the Right to Financial Privacy Act, which, like many state laws, severely limits what banks can tell lawmen.

Suppose a bank officer observes transactions that are technically legal but don't smell right, such as a series of cash deposits just under the $10,000 reporting limit. At the most, the law allows a bank to notify authorities that it has information that "may be relevant to the violation of a regulation or statute." The bank may identify the customer, but is not allowed to turn over customers' records to government investigators. The FBI, the IRS, or the Customs Bureau, however, could choose to follow up on the cryptic tip with a warrant for the person's records. In that case the customer might sue the bank for civil damages for calling in the feds.

Because of the privacy laws, some banking attorneys say, banks might be excused for accepting a lot of cash business that comes their way, no matter how peculiar. But experience under the laws suggests that the bankers' fears may be overwrought. According to the American Bankers Association, no U.S. bank has yet been sued under the federal or state privacy laws. And a proposed amendment to the federal law would make it easier for banks to win lawsuits.

Outside auditors, it might seem, could

RESEARCH ASSOCIATE *Brett Duval Fromson*

"We are fighting *criminals who have more money than we do," says John Walker, 43, the Treasury Department's enforcement chief.*

spot laundering that banks neglect to report. They rarely do. Coopers & Lybrand, the Bank of Boston's accounting firm, declines to comment. Declares a partner in another Big Eight house who asked not to be named: "You would probably never find an auditor even checking for compliance on something like this. The audit would never get done if we checked for every damned form a bank has to file. It is not our job to police the morals and ethics of the bank."

More banks—particularly in New England—are now trying harder to police themselves. Not that the Bank of Boston was the first to suffer the indignities of federal finger-pointing; far from it. As long ago as 1977, Chemical Bank in New York fired 24 employees for cooperating in money-laundering schemes. Chemical paid more than $200,000 in fines. In 1983 National Republic Bank in Chicago admitted it hadn't reported $165,000 in cash business from cocaine dealers and paid a $15,000 fine. Florida has been a hotbed of money-laundering convictions and prosecutions: since July 1980 a federal crackdown, code-named Operation Greenback, has led to 211 indictments, 63 convictions, $38.5 million in dirty money seized, and $117 million in bank fines. But New England has been under particular scrutiny since 1982, when a study by the Treasury Department showed far more cash on the books in banks north of Connecticut than those banks had accounted for in their transaction reports to the IRS.

LAST FALL Rockland Trust Co., a small bank in Plymouth, Massachusetts, and officers of the Ausonian Credit Union in Boston were indicted for failing to file currency reports. The Ausonian further neglected to keep any records at all on certain customers. Other New England banks began feeling the heat well before any indictments were announced. The vice chairman of one tells, rather nervously, of a sales campaign at one of his bank's branches offering a high rate on certificates of deposit. "The feds came swooping down, wanting to know if there had been any unusual cash transactions," he says. "There was one. Thank God we had already reported it."

For some, such vigilance may come too late: Patrick M. Walsh, an attorney for the Justice Department who helped prosecute the Bank of Boston, has told FORTUNE he expects a grand jury to hand up indictments of Boston banks and bankers in the next few months.

Walsh hints he may also move on other kinds of financial institutions. In New York City, U.S. Attorney Rudolph W. Giuliani, who recently made headlines for his part in the arrest of five organized crime leaders, is a bit more specific. "We are looking at brokerage houses," he says. "The percentage of currency-report filings for brokerages is much lower than for banks. For the longest time the brokers have really paid no attention to this at all."

Brokerage houses, less closely regulated than banks, are logical places for laundering. In 1982 the Securities and Exchange Commission wrote a rule that delegates the task of monitoring currency reports to the securities and commodities exchanges. The New York Stock Exchange does check to see whether the brokers file the reports, but

only once a year, and only cursorily. "We do a spot-check as part of our regular yearly financial examination," explains an official at the Exchange. "The currency reporting part is done in a very short amount of time."

Executives of brokerage firms insist they discourage cash transactions for security reasons; most simply haven't got a safe enough place to keep big bundles of bills. Though no Wall Street house has embraced a policy of turning away greenbacks, Merrill Lynch came close two years ago by setting a $100 limit per transaction. But brokers, who unlike bankers get paid largely in commissions, are under pressure to bend the rules to keep sales up. Says an official at one brokerage house: "If somebody wanted to launder money by buying stock—well yes, they could do that. It probably happens all the time. But not at this firm."

It happened at Merrill Lynch and E.F. Hutton. In 1982 a heroin ring run by Joseph Bonanno, a prominent New York godfather, used an account set up for a Swiss corporation called Traex to launder more than $4 million through Merrill Lynch's New York office. A courier named Franco Della Torre carted the cash through the front door in bags of $5, $10, and $20 bills. The transactions seemed exceedingly odd to Merrill Lynch security people, who noticed that Della Torre was nervous about standing in front of closed-circuit TV cameras. After conferring with staff members in Switzerland, Merrill Lynch closed the Traex account.

TOUGH TO DISCOURAGE, Della Torre took his business to E.F. Hutton. There he met with a warmer reception. Security personnel helped him carry suitcases full of small bills from his hotel room straight to Bankers Trust, where Hutton keeps its customers' money. According to federal investigators, nobody from E.F. Hutton ever called the firm's legal department or otherwise let on that anything was amiss. Later, when the FBI was closing in on the Bonanno-Traex ring, Hutton notified one of Della Torre's associates in Switzerland that it had received a subpoena for Traex's records. As a result, the Swiss arm of the heroin enterprise disbanded and got away. The FBI now claims its agents asked Hutton not to tip off the client, but Hutton disputes this. Thomas Rae, general counsel at Hutton, says there was "a misunderstanding." No one at E.F. Hutton has been charged with a crime.

Other brokerage firms have managed to keep their money-laundering mishaps out of

Tucked away *in the city's North End, the Bank of Boston's Hanover Street branch at left saw the comings and goings of repeated mobsters bearing bags of cash.*

HOW TO CLEAN UP YOUR ACT (IF YOU HAVEN'T ALREADY)

"We did not realize the seriousness of the problem. We did not perceive the regulation as very important. We were not prepared.

So laments a since departed Bank of Boston executive. The bank's sad saga is a case study of how not to comply with the Bank Secrecy Act of 1970. For executives of other financial institutions who want to avoid such tribulations, here are tips from banking experts, lawyers, and federal enforcers:

Educate your employees. Teach all who handle currency to report all large transactions precisely as the regulations require. Leave no doubt in anyone's mind that those who don't will be fired. Federal investigators will not accept lame excuses for partial compliance when they come knocking, subpoena in hand. The teaching job may soon be easier. In a March meeting, officials from ten federal agencies tentatively agreed with representatives of the banking and thrift industry to launch a massive program to educate everyone from tellers to chief executives.

Appoint a reporting czar. Managers who oversee currency transactions must not be relied on to vouch for the accuracy of transaction reports and lists of companies exempt from the reporting rule. Launderers are expert at bribing and blackmailing those in the front lines. Instead, designate an officer to review all reports for accuracy and make sure they are sent to the government straightaway.

Keep watchdogs prowling. Once everyone understands the rules, set up an internal audit group to see that they are followed. These home-grown snoops must have the freedom to run spot-checks as well as regular investigations. If they find that your institution is not in compliance, get in compliance even if it means belatedly filing reports for past transactions. Whatever fine you pay will be a pittance compared with the grief and penalties in store if the U.S. Treasury—Washington's main watchdog—discovers the problem on its own.

Know your customer. With your defenses in order, take the initiative. Employees who deal directly with customers must learn to identify suspicious patterns of currency transactions, even those below the $10,000 reporting threshold. Don't look the other way; inform the regulators at the Treasury. If at a later date you run afoul of the law, you can argue prior compliance and reasonably expect the feds to treat you with some compassion.

If a subpoena arrives . . . You have taken all this advice but a federal grand jury nevertheless serves you with a writ. Take drastic action. Top management must quickly and quietly find out what happened. If there are guilty or incompetent employees, fire them. Then tell the prosecutors at the U.S. Attorney's office in your city what happened, how it happened, and why it won't happen again. Play it straight with them. Remember the words of J. Michael Nolan Jr. of the New York law firm Pitney Hardin Kipp & Szuch, who pulls banks out of hot water for a variety of infractions: "Unless you really want to play Russian roulette, don't stonewall or try to get tough with the feds. They love to play hardball. You are just another case to them. You will end up before a jury of 12 strangers who love bankers even less than they like lawyers."

If indicted . . . You haven't been listening, in which case you may be innocent or you may be a crook. If the latter, you're best off copping a plea, paying the fine, and hoping you don't end up doing the prison laundry. **—Brett Duval Fromson**

the newspapers. Smith Barney, for instance, had a broker in Los Angeles a couple of years ago who helped a client a mite too much. The client had bags full of cash and wanted to open an account. Smith Barney's man told him to get a cashier's check from a bank, but the client was afraid to lug so much loot around town. So the broker picked up the money at the client's house and ran the errand for him. That cost the broker his job. "It was obvious to us that it was very dirty money," says a Smith Barney executive. "We decided we didn't need a broker who might be an accomplice to God knows what."

Both bankers and brokers say they tell their clients at the outset that any cash transaction of more than $10,000 will be reported to the authorities. Despite this, underworld characters prefer to bring their money to these institutions instead of laundering it through mob-owned businesses. "Maybe they just aren't as smart as people give them credit for," muses a Wall Streeter. What's more likely is that mobsters, to paraphrase F. Scott Fitzgerald, are different from you and me: they're often far less afraid of the law than of dealing with their own colleagues. Says John D. Johnson, the IRS district director in Boston, "In a typical money-laundering transaction, the guy with the cash isn't worried about the feds. He's worried about getting ripped off or killed. People in this business just don't live very long."

THE EASIEST WAY to launder money is through casinos. Federal authorities, in stepped-up snooping, have found 381 instances in which money launderers used them. A common strategy is to haul, say, $100,000 in cash into a licensed gambling establishment in Atlantic City or Las Vegas and buy chips with it. Already the money is "clean"; it can't be distinguished from any of the other piles of small bills a casino keeps in its vault. The next step is to gamble away some of those chips, $5,000 or so, just to make it look as though the customer really wanted to play. Then the rest of the chips can be turned in at the cashier's window for a $95,000 credit, which the launderer instructs the casino to wire to its branch in Bermuda or Belize. The launderer needs only to hop a plane to pick up his money and stash it in a foreign bank. This charmed scheme will soon entail new risks. Starting in May, casinos will have to file the same currency reports that banks and brokers do. To get around this, a would-be launderer will have to buy smaller stacks of chips.

The federal government is unlikely ever to stamp out laundering, or even most of it. Gerard Kenna, the FBI-agent-turned-bank-consultant, believes it's possible to detect less than 5% of all money washing. An unfathomable amount of dirty money—muggers' money from selling stolen goods, for example—will never be reported. Big-time money launderers have a powerful financial incentive to find new ways around the feds, and even the gung-ho President's Commission on Organized Crime concedes that "the degree of sophistication and complexity in money-laundering schemes can be virtually infinite." But Washington's message to financial institutions couldn't be clearer: those who don't want their names dirtied by laundering, Bank of Boston style, must choose their customers carefully. F